

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: REVIEW OF FUEL PROCUREMENT PRACTICES	DOCKET NO. RMU-00-6
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ORDER ADOPTING RULES

(Issued June 21, 2000)

Pursuant to the authority of Iowa Code §§ 17A.4, 474.5, 476.1, and 476.6(16) (1999), the Utilities Board adopts the amendments attached hereto and incorporated by reference. These rules amend 199 IAC 20.13(1) and (2) to reflect recent changes to Iowa Code § 476.6(13). Section 476.6(13) now requires the Board to conduct a periodic, rather than an annual, proceeding for the purpose of evaluating the reasonableness and prudence of a rate-regulated public utility's electric fuel procurement and contracting practices. The reasons for adopting these amendments are set forth in the attached notice of intended action.

IT IS THEREFORE ORDERED:

1. A rule making, identified as Docket No. RMU-00-6, is adopted.

2. The Executive Secretary is directed to submit for publication in the Iowa Administrative Bulletin a notice in the form attached to and incorporated by reference in this order.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr.
Executive Secretary

/s/ Diane Munns

Dated at Des Moines, Iowa, this 21st day of June, 2000.

UTILITIES DIVISION [199]

Adopted and Filed

Pursuant to Iowa Code sections 17A.4, 474.5, 476.1, and 476.6(16) (1999), the Utilities Board (Board) gives notice that on June 21, 2000, the Board issued an order in Docket No. RMU-00-6, In re: Review of Fuel Procurement Practices, "Order Adopting Rules.

The amendments to 199 IAC 20.13(1) and 20.13(2) reflect recent amendments to Iowa Code section 476.6(16). Section 476.6(16) now requires the Board to conduct a periodic, rather than an annual, proceeding for the purpose of evaluating the reasonableness and prudence of a rate-regulated public utility's electric fuel procurement and contracting practices.

On February 17, 2000, the Board issued an order to consider adopting amendments to 199 IAC 20.13(1) and 20.13(2). The proposed rule making was published in IAB Vol. XXII, No. 18 (3/8/00) p. 1360, as ARC 9729A. Written statements of position were filed by the Consumer Advocate Division of the Department of Justice, Alliant Energy, and MidAmerican Energy Company (MidAmerican). All those filing statements, except MidAmerican, supported adoption of the proposed amendments. An oral presentation was not requested or scheduled.

Subrules 199 IAC 20.13(1) and 20.13(2) currently require the Board to conduct an annual contested case to review each rate-regulated electric utility's

fuel procurement practices. The adopted amendments reflect the statutory change from an annual to a periodic review. The amendments provide that the Board will notify the rate-regulated electric utilities by January 31 of each year if the utilities will be required to file an electric fuel procurement plan for that year. The amendments further provide that, in the years a full plan filing is not required, the Board may request certain information for review.

MidAmerican commented on four major subject areas. First, MidAmerican suggested electric utilities without a fuel adjustment clause be excluded from the rules' requirements. While the Board may not be able to disallow costs in an ARC proceeding for a utility without a fuel adjustment clause, the proceeding can give that utility directions as to things the Board would like pursued or done differently. An ARC proceeding allows the Board and other interested parties to focus on fuel procurement issues without the distraction of the myriad of other issues present in a rate case proceeding. The Board believes the ARC proceedings have value for all investor-owned electric utilities, whether or not they have a fuel adjustment clause.

Second, MidAmerican requested the ARC proceeding be limited only to procurement and contracting practices related to the acquisition of fuel for use in generating electricity. In other words, MidAmerican would not have the Board consider issues surrounding purchased power contracts in an ARC proceeding. However, the Board believes that given the increased role of purchased power in supply portfolios, it is appropriate for utilities to continue to provide purchased power contracts, pool interchange agreements, and interchange agreements.

Third, MidAmerican proposed the procurement plan only include contracts in effect during the applicable prior 12-month period that have not been previously reviewed by the Board. The Board rejects this suggestion because a complete review of a utility's fuel procurement practices cannot be obtained without current review of all contracts, including long-term contracts. For example, several years ago the Board used the ARC proceedings as a forum to encourage utilities to buy-out long-term coal contracts because of significant price decreases in the spot market. This could not have been done if the Board did not review all fuel procurement contracts.

Fourth, MidAmerican suggests several non-substantive changes, including combining the requirements associated with allowance contracts in the same section of the rule as other fuel and transportation contracts. The Board will adopt these changes. Because the changes are non-substantive, no further notice is required.

These amendments are intended to implement Iowa Code sections 476.1 and 476.6(16).

The amendments will become effective on August 16, 2000.

The following amendments are adopted.

Amend rule 199—20.13(476) as follows:

199—20.13(476) ~~Annual~~ *Periodic* electric energy supply and cost review
[476.6(16)].

20.13(1) Procurement plan. The board shall periodically conduct a contested case proceeding for the purpose of evaluating the reasonableness and prudence of a rate-regulated public utility's electric fuel procurement and contracting practices. By January 31 each year the board will notify a rate-regulated utility if the utility will be required to file an electric fuel procurement plan. In the years in which it does not conduct a contested case proceeding, the board may require a utility to file certain information for the board's review. In years in which a full proceeding is conducted, a rate-regulated utility providing electric service in Iowa shall prepare and file with the board on or before May 15 of each required filing year a complete electric fuel procurement plan for an annual period commencing June 1, or in the alternative, for the annual period used by the utility in preparing its own fuel procurement plan. A utility's procurement plan shall be organized to include information as follows:

a. Index. The plan shall include an index of all documents and information required to be filed in the plan, and the identification of the board files in which the documents incorporated by reference are located.

b. Purchase contracts and arrangements. A utility's procurement plan shall include detailed summaries of the following types of contracts and agreements executed since the last procurement review:

(1) All contracts and fuel supply arrangements for obtaining fuel for use by any unit in - generation;

(2) All contracts and arrangements for transporting fuel from point of production to the site where placed in inventory, including any unit generating electricity for the utility;

(3) All contracts and arrangements for purchasing or selling allowances.

(4) Purchased power contracts or arrangements, including sale-of-capacity contracts, involving over 25 MW of capacity;

(5) Pool interchange agreements;

(6) Multiutility transmission line interchange agreements; and

(7) Interchange agreements between investor-owned utilities, generation and transmission cooperatives, or both, not required to be filed above; which were entered into or in effect since the last filing, and all such contracts or arrangements which will be entered into or exercised by the utility during the prospective 12-month period.

All procurement plans filed by a utility shall include all of the types of contracts and arrangements listed in subparagraphs (1) and (2) of this paragraph which will be entered into or exercised by the utility during the prospective 12-month period. In addition, the utility shall file an updated list of contracts that are or will become subject to renegotiation, extension, or termination within five years. The utility shall also update any price adjustment affecting any of the filed contracts or arrangements.

~~c. Allowance contracts and arrangements. A utility's procurement plan shall include detailed summaries of the following types of contracts and arrangements:~~

~~(1) All contracts and arrangements for purchasing or selling allowances~~

~~entered into or exercised, and all contracts or arrangements which will be entered into or exercised by the utility during the prospective 12-month period.~~

~~(2) All allowance futures contracts entered into or exercised or which will be entered into or exercised by the utility during the prospective 12-month period.~~

~~(3) A list of contracts which are subject to renegotiation, extension, or termination within five years.~~

~~(4) Annual updates to any price adjustment affecting any of the filed contracts or arrangements.~~

ec. Other contract offers. The procurement plan shall include a list and description of those types of contracts and arrangements listed in paragraph 20.13(1) "b" ~~and "d"~~ offered to the utility - since the last filing into which the utility did not enter. In addition, the procurement plan shall include a list of those types of contracts and arrangements listed in paragraph 20.13(1) "eb" which were offered to the utility for the prospective 12-month period and into which the utility did not enter.

fd. Studies or investigation reports. ~~The~~ procurement plans shall include all studies or investigation reports which have been considered by the utility in deciding whether to enter into any of those types of contracts or arrangements listed in paragraphs 20.13(1) "b," ~~"d"~~ and "ec" which will be exercised or entered into during the prospective 12-month period.

ge. Price hedge justification. The procurement plan shall justify purchasing allowance futures contracts as a hedge against future price changes in the market rather than for speculation.

hf. Actual and projected costs. The procurement plan shall include an accounting of the actual costs incurred in the purchase and transportation of fuel and the purchase of allowances for use in generating electricity associated with each contract or arrangement filed in accordance with paragraph 20.13(1) "b" for the previous 12-month period.

The procurement plan also shall include an accounting of all costs projected to be incurred by the utility in the purchase and transportation of fuel and the purchase of allowances for use in generating electricity associated with each contract or arrangement filed in accordance with paragraph 20.13(1) "b" ~~and "d"~~ in the prospective 12-month period.

If applicable, the reporting of transportation costs in the procurement plan shall include all known liabilities, including all unit train costs.

ig Costs directly related to the purchase of fuel. The utility shall provide a list and description of all other costs directly related to the purchase of fuels for use in generating electricity not required to be reported by paragraph "hf"

jh. Compliance plans. ~~Beginning with the 1993 procurement plan,~~ Each utility shall file its SO₂ compliance plan as submitted to the EPA. Revisions to the compliance plan shall be filed with each subsequent procurement plan.

ki. Evidence submitted. Each utility shall submit all factual evidence and written argument in support of its evaluation of the reasonableness and prudence of the utility's procurement practice decisions in the manner described in its procurement plan. The utility shall file data sufficient to forecast fuel consumption at each generating unit or power plant for the prospective 12-month period. The

board may require the submission of machine-readable data for selected computer codes or models.

j. Each utility shall file additional information as ordered by the board.

20.13(2) Periodic review proceeding. The board shall periodically conduct a proceeding to evaluate the reasonableness and prudence of a rate-regulated utility's procurement practices. The prudence review of allowance transactions and accompanying compliance plans shall be determined on information available at the time the options or plans were developed.

a. On or before May 15 of a required filing year, each utility shall file prepared direct testimony and exhibits in support of its fuel procurement decisions and its fuel requirement forecast. This filing shall be in conjunction with the filing of the plans. The burden shall be on the utility to prove it is taking all reasonable actions to minimize its purchased fuel costs.

b. - The board shall disallow any purchased fuel costs in excess of costs incurred under responsible and prudent policies and practices.

20.13(3) ~~Annual meeting of electric utilities. Rescinded IAB 4/3/91, effective 3/15/91.~~

June 21, 2000

/s/ Allan T. Thoms
Allan T. Thoms
Chairman